

**Initiative #126**  
**Limitations on Payday Loans**

**Proposition ? proposes amending the Colorado statutes to:**

- ♦ limit the total cost for a payday loan to a 36 percent annual percentage rate; and
- ♦ expand what constitutes unfair or deceptive trade practices for payday lending.

**Summary and Analysis**

**Background.** Payday loans are small, easy-to-access short-term loans that do not require a credit check. In 2016, about 207,000 individuals in Colorado secured over 414,000 payday loans. These loans totaled over \$166 million, and consumers paid an estimated \$50 million in loan costs (any combination of fees and interest), with a default rate of 23 percent. The Department of Law licenses and establishes rules for payday lenders and conducts compliance examinations of their loans. The department also investigates and litigates cases involving payday lenders.

**Annual percentage rate (APR).** The APR is the total loan cost expressed as a yearly rate and includes the interest on the loan amount, origination fees, and monthly maintenance fees. The average APR on payday loans in Colorado is 129 percent. The actual APR ranges between 100 and 200 percent for most payday loans, depending on how quickly the borrower repays the loan.

**Current payday loan regulations.** Colorado law limits payday loans to \$500 with a minimum repayment term of six months and no maximum repayment term. The law allows lenders to charge an origination fee of up to 20 percent of the first \$300 loaned, plus 7.5 percent of any amount in excess of \$300. In addition, lenders may charge an interest rate of 45 percent per year per loan and a monthly maintenance fee of \$7.50 per \$100 loaned, up to a total of \$30 per month. If the borrower repays the loan early, the lender must refund a prorated portion of the fees. Current law defines unfair and deceptive trade practices as making loans disguised as personal property sale and leaseback agreements or as a cash rebate.

**Changes under the measure.** The measure limits the loan costs on a payday loan to a maximum APR of 36 percent. In addition, regardless of whether payday lenders have a physical location in the state, they may not offer higher cost loans via electronic or U.S. mail, the internet, or telemarketing.

Table 1 below is an example of the total cost for a \$500 loan that is repaid in six months under current law and under Proposition ?.

**Table 1. Comparison of Estimated Cost of Six-Month Payday Loan\***

	<b>Current Law</b>	<b>Proposition?</b>
Loan amount	\$500	\$500
Total cost of loan	\$293	\$90
Total amount paid	\$793	\$590
APR	116%	36%

*\*The actual costs may vary by lender.*

*For information on those issue committees that support or oppose the measures on the ballot at the **November 6, 2018**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

## 1 **Argument For:**

- 2 1) Coloradans are paying too much to borrow small amounts of money from payday  
3 lenders. Some consumers borrow money to pay off other payday loans, which leads to  
4 a cycle of debt. Because the measure reduces the high cost of payday loans,  
5 consumers may be better able to repay their loans and avoid further financial stress.

## 6 **Argument Against:**

- 7 1) This measure is unnecessary because the state legislature passed reforms in 2010 that  
8 led to reduced loan costs and fewer defaults, while ensuring that consumers have  
9 access to a well-regulated source of emergency loans. Payday loans provide options for  
10 consumers who would otherwise struggle to qualify for other types of loans. With limited  
11 or no access to payday loans for emergencies, consumers may pay higher costs to other  
12 creditors from late payment fees, bounced check and overdraft fees, or utility disconnect  
13 fees.

## 14 **Estimate of Fiscal Impact**

### 15 ***State revenue and spending***

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- 17 If Proposition ? results in payday lenders choosing not to renew their licenses, there will be  
18 a reduction in fee revenue to the Department of Law.